

July 26, 2022

RESULT REPORT Q1 FY23 | Sector: Consumer Durables

Orient Electric Ltd

Long term potential intact with near term uncertainty; maintain BUY

Result Synopsis

Orient Electric (ORIENTEL) delivered mix bag performance with revenue growing 3% above estimates while operating margins seeing sequential decline of 456bps; while other peers have reported strong growth with higher operating margins. Company has been able to protect its gross margins as it has taken lead in passing on increased commodity prices to the customers. Also, there has been inventory de-stocking in channel on anticipation of price decrease owing to lower commodity prices. There could be some near-term uncertainty as orient is moving towards new distribution system, which could take time to stabilize. We expect margins to be lower as there would be additional expenses incurred in revamping distribution system.

We now expect FY22-24E revenue CAGR of 13%, with margins also expected to gradually normalize going forward, we estimate FY22-24E EBITDA and PAT CAGR of 19% and 20% respectively. Change in distribution practice can result in disruption in short term before company the company starts realizing benefits in the longer term. Considering short term disruption, we have cut our target multiple to 40x vs 45x earlier. However, considering solid long-term growth potential and sharp correction in stock price, we maintain our BUY rating with TP of Rs341.

Result Highlights

- **Quarter Summary** - Orient Electric (ORIENTEL) delivered a below par performance with revenue growth of 47.2% yoy (Lower than peers to have reported so far). ECD segment registered growth of 37.4%; while lighting and switchgears saw revenue growth of 79.5%.
- **ECD performance was below expectation** - Slump in demand in the latter part of the quarter and inventory de-stocking by dealers in anticipation of lower prices owing to correction in commodity prices have resulted lower than expected revenue. Extension of direct to dealer approach to new markets has also resulted in some loss of revenue.
- **Margins** - Gross margin expanded 46bps yoy basis despite significant increase in raw material prices as company has taken lead in passing on increased costs. Company has been able to manage commodity inflation better.
- **Working capital and operating cashflow** - Working capital at end of Q1FY23 stood at 33 days vs 52 days in Q1FY22. The Company aims to maintain a lean working capital cycle, where cash flows can be utilized to maximize the operating leverage of the company.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,126	6,053	6,866	2.7	-10.7	Inventory de-stocking by channel in anticipation of price cuts owing to lower commodity prices have resulted lower growth
EBITDA	382	653	704	-41.6	-45.7	
EBITDA Margin (%)	6.1	10.8	10.3	-470 bps	-420 bps	
Adjusted PAT	190	473	417	-59.9	-54.4	

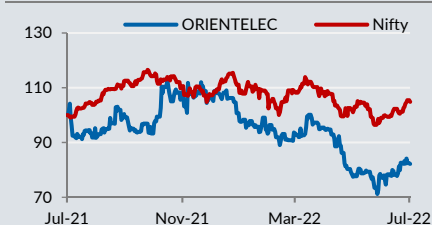
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 277
Target Price	: Rs 341
Potential Return	: +23.1%

Stock data (as on July 25, 2022)

Nifty	16,631
52 Week h/l (Rs)	408 / 244
Market cap (Rs/USD mn)	60664 / 761
Outstanding Shares (mn)	212
6m Avg t/o (Rs mn):	75
Div yield (%)	0.7
Bloomberg code:	ORIENTEL IN
NSE code:	ORIENTELC

Stock performance



	1M	3M	1Y
Absolute return	7.0%	-13.0%	-17.3%

Shareholding pattern (As of Mar'22 end)

Promoter	38.5%
FII+DII	35.2%
Others	26.2%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	341	389

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	7.2	8.5
EPS (Old)	7.4	8.6
% change	-2.7%	-1.2%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	24,484	27,941	31,528
YoY Growth	20.5%	14.1%	12.8%
EBIDTA	2,313	2,772	3,279
YoY Growth	5.4%	19.8%	18.3%
PAT	1,266	1,528	1,810
YoY Growth	13.2%	20.6%	18.4%
ROE	25.4	25.9	25.8
EPS	6.0	7.2	8.5
P/E	46.4	38.5	32.5
BV	25.4	30.2	35.9
EV/EBITDA	24.8	20.8	17.4

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	y/y %	q/q %	FY22	FY21	y/y %
Sales	4,223	5,944	6,784	7,532	6,216	47.2	(17.5)	24,483	20,326	20.5
EBITDA	223	619	665	806	382	70.8	(52.6)	2,312	2,195	5.3
EBITDA Margin %	5.3	10.4	9.8	10.7	6.1					
Depreciation	116.1	117.2	118.4	119.1	127.9	10.2	7.4	471	432	9.1
EBIT	107	502	546	686	254	136.3	(63.1)	1,842	1,764	4.4
EBIT Margin %	2.5	8.4	8.1	9.1	4.1			7.5	8.7	
Interest charges	48	50	46	60	52	7.3	(13.3)	203	207	(2.1)
Other Income	9.0	13.4	8.9	26.8	51.9	476.7	93.7	58	63	(7.3)
PBT	68	466	509	654	254	272.3	(61.2)	1,697	1,619	4.8
Tax	18.0	117.8	128.5	166.9	64.4	257.8	(61.4)	431	422	2.3
Effective Tax Rate (%)	26.4	25.3	25.2	25.5	25.4					
PAT	50	348	381	487	190	277.5	(61.1)	1266	1197	5.7
PAT Margin %	1.2	5.8	5.6	6.5	3.0					
EPS (Rs)	0.2	1.6	1.8	2.3	0.9	277.5	(61.1)	6.0	5.6	5.7

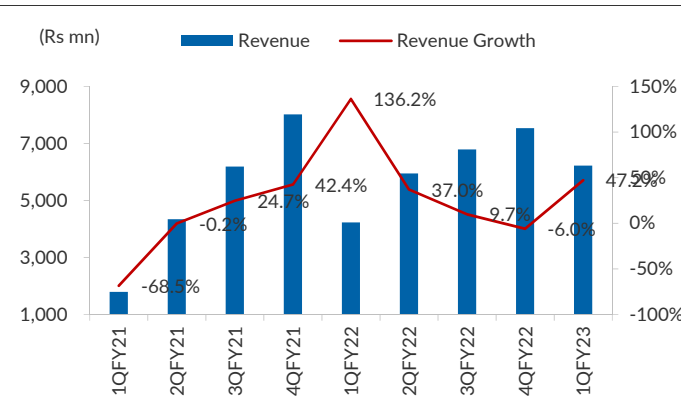
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Electrical consumer durable	3,241	4,198	4,813	5,741	4,453	37.4	(22.4)	17,993	15,139	3,241
Lighting & Switchgears	982	1,746	1,971	1,792	1,763	79.5	(1.6)	6,491	5,187	982
Net Sales	4,223	5,944	6,784	7,533	6,216	47.2	(17.5)	24,484	20,326	4,223
PBIT										
Electrical consumer durable	226.6	515.5	533.6	735.9	371.7	64.0	(49.5)	2,012	2,052	226.6
PBIT %	7.0	12.3	11.1	12.8	8.3			11.2	13.6	7.0
Lighting & Switchgears	103.3	275.5	289.2	280.7	232.4	125.0	(17.2)	949	692	103.3
PBIT %	10.5	15.8	14.7	15.7	13.2			14.6	13.3	10.5
Total PBIT	330	791	823	1,017	604	83.1	(40.6)	2,960	2,744	330
Finance Costs	46.4	47.4	42.7	56.6	48.9	5.4	(13.6)	193	197	46.4
Unallocable expense	215	278	271	305	301	39.9	(1.3)	1,070	928	215
as % of sales	5.1	4.7	4.0	4.1	4.8			4.4	4.6	5.1
PBT	68	466	509	655	254	272.8	(61.2)	1698	1619	68

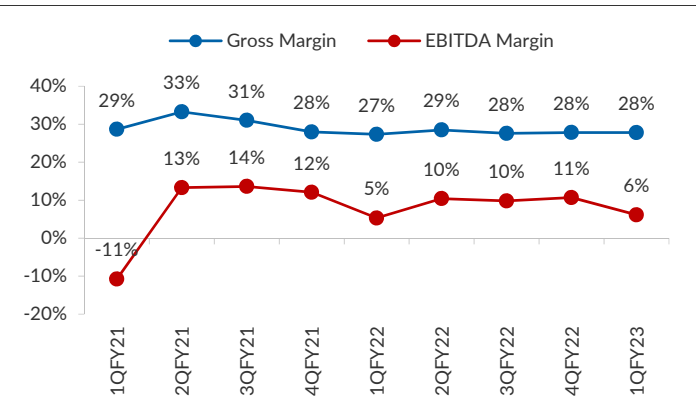
Source: Company, YES Sec

Exhibit 4: Inventory de-stocking by channel in latter part of quarter led to lower than expected revenue growth



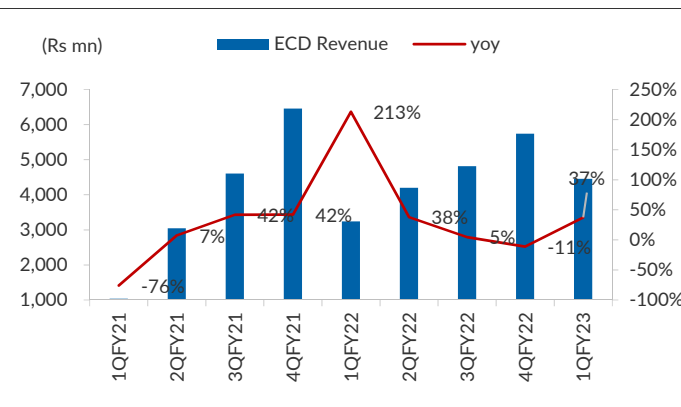
Source: Company, YES Sec

Exhibit 5: Higher other expenses dented EBITDA margin



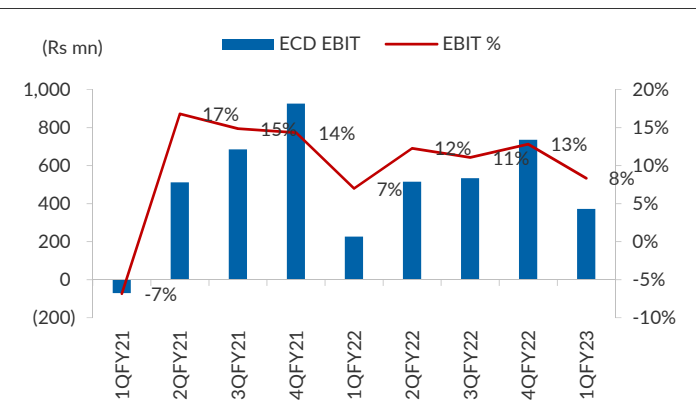
Source: Company, YES Sec

Exhibit 6: Extending direct distribution to new markets and inventory de-stocking led to lower than estimated revenue growth



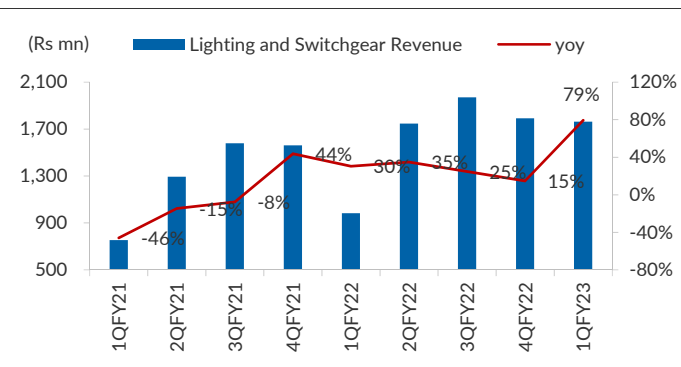
Source: Company, YES Sec

Exhibit 7: Higher A&P and warranty expense have resulted in lower margins



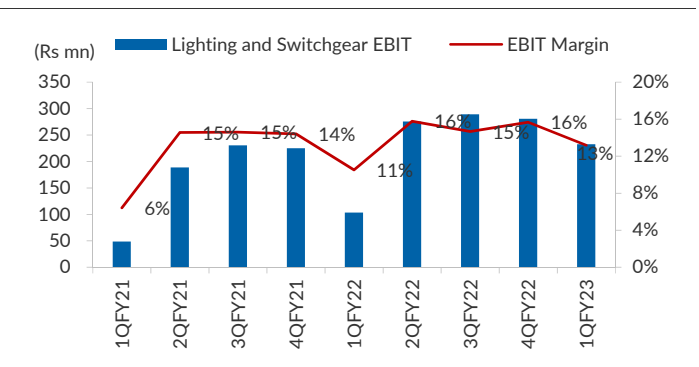
Source: Company, YES Sec

Exhibit 8: Lighting and switchgear has continued its strong growth momentum led by consumer and facade lighting



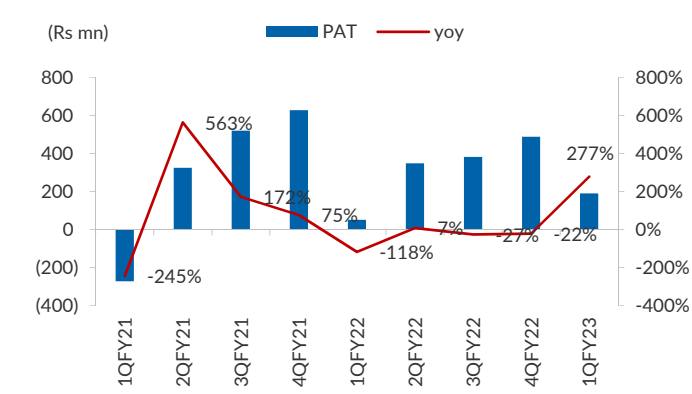
Source: Company, YES Sec

Exhibit 9: EBIT margins continues to remain healthy



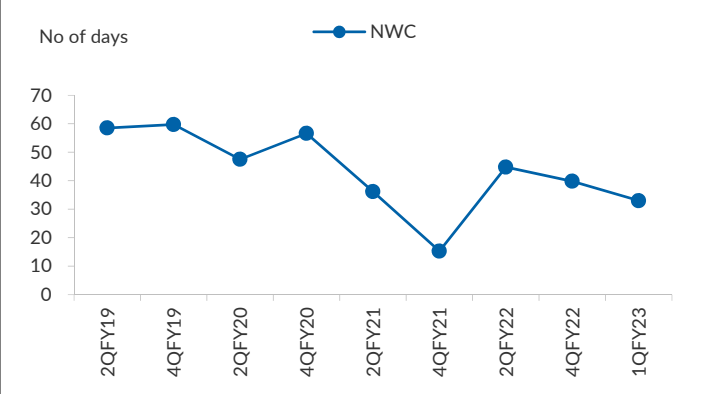
Source: Company, YES Sec

Exhibit 10: PAT growth is on back of low base



Source: Company, YES Sec

Exhibit 11: Net working capital days is trending lower



Source: Company, YES Sec

Exhibit 12: Revenue and Margin Assumption

Rs mn	FY20	FY21	FY22	FY23E	FY24E
Electrical Consumer durables	14,916	15,139	17,993	20,152	22,571
yoy	12.2	1.5	18.9	12.0	12.0
Lighting & Switchgear	5,702	5,187	6,491	7,789	8,957
yoy	6.6	-9.0	25.1	20.0	15.0
Net Sales	20,618	20,326	24,484	27,941	31,528
yoy	10.6	-1.4	20.5	14.1	12.8
PBIT					
Electrical Consumer durables	1818	2052	2012	2358	2754
PBIT %	12.2	13.6	11.2	11.7	12.2
Lighting & Switchgear	597	693	949	1168	1361
PBIT %	10.5	13.4	14.6	15.0	15.2
Total PBIT	2,414	2,745	2,960	3,526	4,115

KEY CON-CALL HIGHLIGHTS

- **Business update** – Strong growth momentum continued with start of the early summer. In the latter part of the quarter demand declined on account of high inflation. There was trade inventory correction on anticipated price reduction owing to lower commodity prices. Q1 performance has been below company expectation as demand slumped in May and June.
- **Inventory correction** – Q2 will see inventory correction by the trade as commodity prices have corrected and there will be high cost inventory in the system
- **Distribution** – During Q4FY22, the Company transitioned its distribution approach for its Fans segment in the underpenetrated markets of Odisha and Bihar, with a direct-to-dealer approach from its traditional approach of selling via master distributors. The company in Q1FY23 has further extended to other low underpenetrated markets of Uttar Pradesh and Karnataka. The company expects a positive outcome from this action in these markets.
- **Distribution transition** – Some part of revenue has lost due to transition of distribution system. Distribution transition is done in the markets where ORIENT is under penetrated. Company will retain the strength of the master distributor in the markets where they are very strong. Distribution transition is expected to completed sooner than expected. Company has 50,000 retailers connected through digital medium and are GEO tagged.
- **ECD** – Heat wave have resulted in clean-up of inventory of air-coolers, while early rains has resulted in early stocking of water heaters.
- **Road map to improve efficiency** – Company with its external consultant has clear roadmap to improve efficiency and have decided to speed-up its presence in e-commerce, GTM and cost reduction program.
- **Working Capital** - Working Capital has been consistently coming down and stood at 33 days in Q1FY23 which is back at pre-covid levels.
- **Lighting & Switchgears** – Lighting segment has grown by 80% on strong demand from consumer lighting and luminaire. New product launches and the ability to swiftly change the

Orient Electric Ltd

product mix brings in great agility in this segment. The continued and focused efforts in expanding distribution through digital enablement have helped increase this segment's share in the overall revenue pie.

- **Switchgears** – Switchgears contribution is ~10% to lighting and switchgears.
- **B2B Lighting** – Government spending has started picking up, which will keep the order book of the lighting segment encouraging. Façade lighting orders have been witnessing good traction and the Company remains optimistic about its prospects going ahead with a healthy enquiry pipeline.
- **Gross margins** – Gross margin is likely to improve and expected to reach pre-covid levels. Gross margins are expected to be volatile in near term as company is holding high costs inventory with itself.
- **Consumer demand** – Demand in consumer lighting is continuing well, demand from government has improved. Façade lighting has done well for the company. Cooler inventory has been cleared and expected to grow.
- **BLDC Fans** – BLDC is simple technology and can be easily adopted by most industry participants. Technology is still evolving and once price starts reducing adoption of BLDC fans will constitute 30% to overall fans. There is no major shift in mix of the Fans.
- **Market share** – Fans market share is ranging from 18-20%.
- **Price hikes** – Price hikes have already been taken and there is no need to increase price any further as commodity prices have already corrected.
- **Category mix** – Fans contributes 60% to the total revenue, lighting contributes 25% and Switchgears 2% and balance other products.

FINANCIALS

Exhibit 13: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	212	212	212	212	212
Reserves	3,382	4,344	5,186	6,202	7,405
Net worth	3,594	4,557	5,399	6,414	7,617
Debt	985	153	163	186	210
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	706	554	739	789	843
Total liabilities	5,285	5,263	6,300	7,390	8,670
Fixed Asset	1,461	1,555	1,673	2,002	2,271
Investments	0	0	0	0	0
Other Non-current Assets	1,140	1,105	1,251	1,344	1,402
Net Working Capital	2,614	1,203	1,875	2,834	3,217
Inventories	2,865	2,492	3,261	3,713	4,189
Sundry debtors	3,637	3,552	3,904	5,382	6,072
Loans and Advances	10	9	1	1	1
Sundry creditors	3,305	5,191	4,495	5,374	6,064
Other current liabilities	721	766	775	863	955
Cash & equivalents	71	1,401	1,501	1,210	1,781
Total Assets	5,285	5,263	6,300	7,390	8,670

Source: Company, YES Sec

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	20,618	20,326	24,484	27,941	31,528
Operating profit	1,764	2,195	2,313	2,772	3,279
Depreciation	401	432	471	568	665
Interest expense	261	207	203	232	261
Other income	41	63	58	75	73
Profit before tax	1,143	1,619	1,698	2,048	2,426
Taxes	357	422	431	520	616
Minorities and other	-	-	-	-	-
Adj. profit	786	1,197	1,266	1,528	1,810
Exceptional items	-	-	-	-	-
Net profit	786	1,197	1,266	1,528	1,810

Source: Company, YES Sec

Exhibit 15: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	1,404	1,826	1,901	2,280	2,687
Depreciation	401	432	471	568	665
Tax paid	(357)	(422)	(431)	(520)	(616)
Working capital Δ	(35)	1,411	(672)	(959)	(382)
Other operating items					
Operating cashflow	1,413	3,247	1,268	1,368	2,353
Capital expenditure	(654)	(525)	(589)	(896)	(934)
Free cash flow	760	2,722	679	472	1,419
Equity raised	32	30	-	-	-
Investments	-	-	-	-	-
Debt financing/disposal	(364)	(832)	10	23	24
Interest paid	(261)	(207)	(203)	(232)	(261)
Dividends paid	(290)	(265)	(424)	(512)	(606)
Net Δ in cash	(245)	1,330	100	(291)	571

Source: Company, YES Sec

Exhibit 16: Du-pont analysis

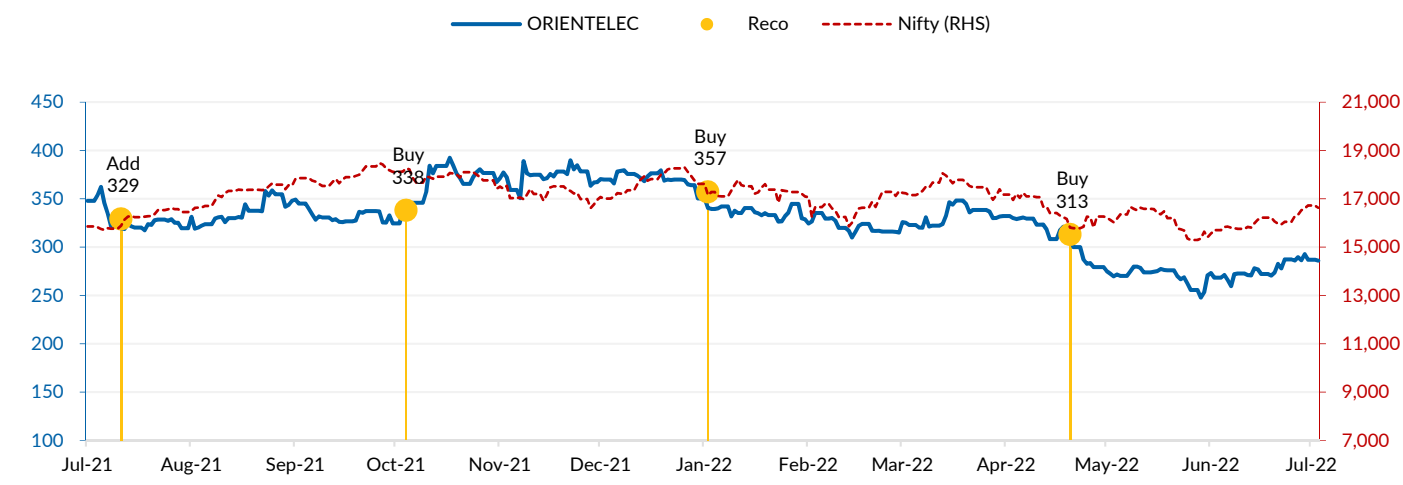
Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	0.69	0.74	0.75	0.75	0.75
Interest burden (x)	0.81	0.89	0.89	0.90	0.90
EBIT margin (x)	0.07	0.09	0.08	0.08	0.09
Asset turnover (x)	2.23	1.92	2.08	2.16	2.10
Financial leverage (x)	2.78	2.60	2.36	2.19	2.14
RoE (%)	23.6	29.4	25.4	25.9	25.8

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	11	(1.4)	20.5	14.1	12.8
Op profit growth	25	24.4	5.4	19.8	18.3
EBIT growth	10	30.1	4.1	19.9	17.9
Net profit growth	13	52.3	5.8	20.6	18.4
Profitability ratios (%)					
OPM	8.6	10.8	9.4	9.9	10.4
EBIT margin	6.8	9.0	7.8	8.2	8.5
Net profit margin	3.8	5.9	5.2	5.5	5.7
RoCE	31.2	39.3	37.0	37.5	37.2
RoNW	23.6	29.4	25.4	25.9	25.8

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
RoA	8.5	11.3	10.8	11.8	12.0
Per share ratios					
EPS	3.7	5.6	6.0	7.2	8.5
Dividend per share	1.1	1.2	2.0	2.4	2.9
Cash EPS	5.6	7.7	8.2	9.9	11.7
Book value per share	16.9	21.5	25.4	30.2	35.9
Valuation ratios					
P/E	74.8	49.1	46.4	38.5	32.5
P/CEPS	49.5	36.1	33.8	28.0	23.8
P/B	16.4	12.9	10.9	9.2	7.7
EV/EBIDTA	33.8	26.2	24.8	20.8	17.4
Payout (%)					
Dividend payout	37	22.1	33.5	33.5	33.5
Tax payout	31	26.0	25.4	25.4	25.4
Liquidity ratios					
Debtor days	64	63.8	58.2	70.3	70.3
Inventory days	51	44.7	48.6	48.5	48.5
Creditor days	58.5	93.2	67.0	70.2	70.2

Recommendation Tracker



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RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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